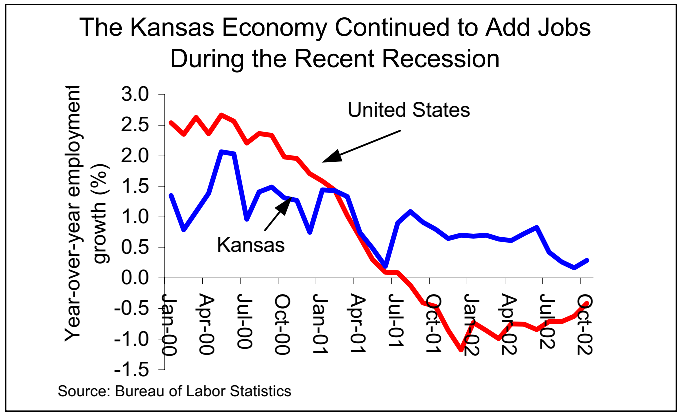
FDIC State Profile

WINTER 2002

Kansas

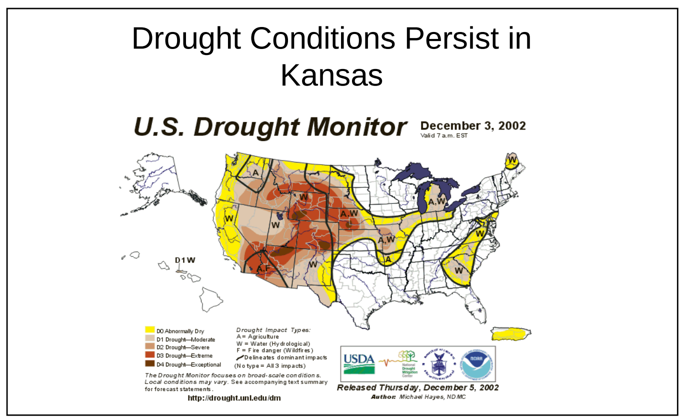
The Kansas economy added jobs throughout the recession.

- Unlike the other states in the Kansas City Region, the Kansas economy added jobs every month during the recent national downturn.
- Several rounds of layoffs occurred in the *Wichita* aircraft manufacturing industry. However, continuing strength in the transportation and government sectors helped maintain net job growth in the state.
- Despite continuing job growth, unemployment remained relatively high at 4.6 percent in October 2002, exceeding the level of all states in the Kansas City Region. The Kansas unemployment rate previously peaked at 4.9 percent in January 2002.



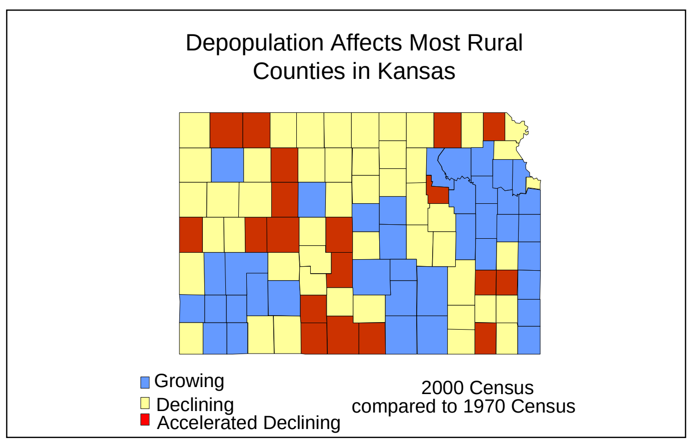
The Kansas agricultural sector was stressed by drought in 2002.

- Growers in much of the state were affected by drought conditions during the summer and fall of 2002 (see map).
- Lack of rainfall significantly affected yields: wheat production was 19 percent below the previous year's level; corn production was down 26 percent; and soybean production was down 29 percent.
- Cattle production in Kansas was also disrupted as shortage of hay and pasture forced ranchers to sell cattle at low prices and liquidate breeding stock.



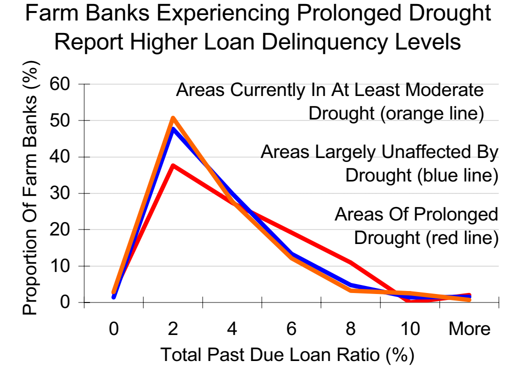
Depopulation in rural areas continues to be a challenge.

- Sixty-seven of 105 counties in Kansas have lost population since 1970, and 19 of those counties also lost population at an increasing rate in the 1990s (see map).
- Technological changes and consolidation in the agricultural sector have reduced the demand for farm labor, and farmers have become less dependent on nearby small towns to purchase inputs and professional services.
- As a result, people have migrated from rural areas to metropolitan areas to seek better employment opportunities.
- Counties that are losing population at a faster rate may lose their economic viability, as shrinking tax rolls may make essential infrastructure, such as utilities and school systems, difficult to maintain.



Severe drought conditions are contributing to weakening asset quality among many of the state's farm banks.

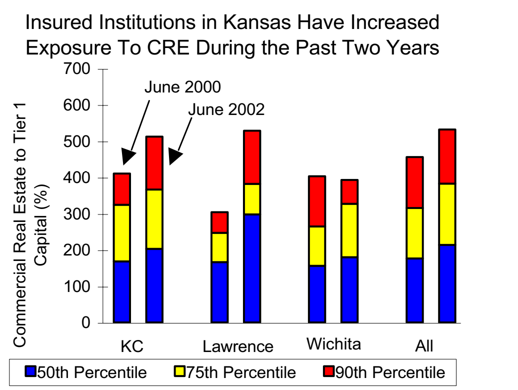
- Much of Kansas currently is in "severe" to "exceptional" drought, following at least moderate drought conditions in 2001. These weather problems follow four years of very low crop prices that left many farm banks holding substantial levels of carryover debt.
- The drought's effects likely will not be fully evident until late 2002 and spring 2003 when operating loans come due. The chart shows that farm banks in areas of prolonged drought (predominantly in Nebraska and northwest Kansas) report higher loan delinquency levels than areas less seriously affected by drought.
- On a positive note, the June 2002 median capital ratio of 10.3 percent reported by farm banks headquartered in Kansas remains high by historical standards and is well above levels during the 1980s farm crisis and 1988 drought.



Source: Bank Call Reports, farm banks in Kansas City Region

Softening commercial real estate markets are a concern to metropolitan commercial lenders headquartered in Kansas.

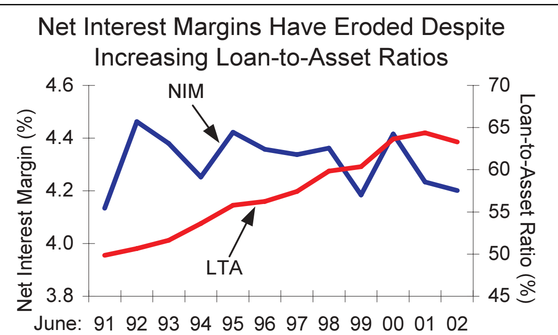
- Many insured institutions operating in the state's largest metropolitan markets have increased reliance on commercial real estate (CRE) loans during the past two years (see chart).
- This increased exposure has come as metropolitan CRE markets, most notably office and industrial, softened significantly during the past 18 months. Office vacancy rates have risen to the highest levels in nearly a decade.
- Weakness in CRE markets has not significantly affected credit quality. As of June 2002, the median loan delinquency ratio was 1.3 percent, and only 5 percent of insured institutions reported delinquency ratios exceeding 5 percent.



Source: Bank and Thrift Call Reports

Community banks continue to face challenges in maintaining net interest margins.

- Net interest margins (NIMs) declined in the 1990s because of strong and increasing loan and funding competition, as well as rural depopulation trends.
- Recent NIM fluctuations, both positive and negative, are attributable to Federal Reserve interest rate actions, and do not signal an end to the longer-term trend of NIM erosion.
- Generally, banks that accept greater credit risk by making more loans are rewarded with higher NIMs. However, this did not hold true in the 1990s, as community bank NIMs declined despite the dramatic increases in loan-to-asset (LTA) levels (see chart).
- Economic slowdowns typically result in declining LTA ratios, and community bank NIMs could be pressured downward should LTA levels revert to historically normal levels.



Source: Bank Call Reports, commercial banks with assets less than $250 million headquartered in Kansas, excluding de novos and specialty banks

Kansas at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	385	393	392	408	417
Total Assets (in thousands)	49,436,990	50,741,240	47,553,961	42,950,623	40,554,299
New Institutions (# <3 years)	8	8	7	5	4
New Institutions (# <9 years)	17	16	13	11	10
Capital					
Tier 1 Leverage (median)	9.59	9.67	9.68	9.45	9.55
Asset Quality					
Past-Due and Nonaccrual (median %)	1.78%	1.93%	1.60%	1.63%	1.75%
Past-Due and Nonaccrual ≥ 5%	39	45	23	35	50
ALLL/Total Loans (median %)	1.41%	1.41%	1.40%	1.45%	1.50%
ALLL/Noncurrent Loans (median multiple)	1.91	1.70	2.35	2.05	1.95
Net Loan Losses/Loans (aggregate)	0.27%	0.26%	0.26%	0.39%	0.25%
Earnings					
Unprofitable Institutions (#)	21	23	12	13	11
Percent Unprofitable	5.45%	5.85%	3.06%	3.19%	2.64%
Return on Assets (median %)	1.14	1.11	1.23	1.13	1.19
25th Percentile	0.81	0.74	0.86	0.81	0.88
Net Interest Margin (median %)	4.14%	4.15%	4.34%	4.13%	4.29%
Yield on Earning Assets (median)	6.75%	8.11%	8.08%	7.71%	8.10%
Cost of Funding Earning Assets (median)	2.57%	3.96%	3.78%	3.57%	3.77%
Provisions to Avg. Assets (median)	0.09%	0.08%	0.06%	0.04%	0.04%
Noninterest Income to Avg. Assets (median)	0.59%	0.59%	0.56%	0.54%	0.58%
Overhead to Avg. Assets (median)	2.91%	2.96%	2.95%	2.87%	2.89%
Liquidity/Sensitivity					
Loans to Deposits (median %)	74.46%	75.57%	73.92%	69.27%	70.11%
Loans to Assets (median %)	61.97%	63.08%	62.96%	59.50%	59.83%
Brokered Deposits (# of Institutions)	43	40	31	26	24
Bro. Deps./Assets (median for above inst.)	3.27%	2.54%	1.92%	2.18%	1.24%
Noncore Funding to Assets (median)	15.55%	15.97%	15.42%	13.18%	12.02%
Core Funding to Assets (median)	72.21%	71.89%	72.90%	75.31%	76.37%
Bank Class					
State Nonmember	238	244	248	257	261
National	104	108	107	110	115
State Member	26	24	20	24	23
S&L	10	10	10	10	12
Savings Bank	7	7	7	7	6
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	299	20,031,179	77.66%	40.52%
Kansas City MO-KS	44	11,308,241	11.43%	22.87%
Wichita KS	27	6,917,343	7.01%	13.99%
Topeka KS	9	10,765,780	2.34%	21.78%
Lawrence KS	6	414,447	1.56%	0.84%

Source: Bank and Thrift Call Reports